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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of

The Allowance for Funds Used During
Construction (AFUDC) Rate Properly
Charged by Dominant Carriers For
Ratemaking and Other Purposes

RM-7626

REPLY COMMENTS

BellSouth Corporation, South Central Bell Telephone Company and Southern Bell Telephone and Telegraph Company ("BellSouth") hereby reply to the comments submitted in the captioned proceeding. In this proceeding, Ameritech petitioned the Commission to institute a rulemaking proceeding to alter the rate at which the Allowance for Funds Used During Construction ("AFUDC") is capitalized.

Five parties commented on Ameritech's petition for rulemaking. Four of the parties, the United States Telephone Association, the NYNEX Telephone Companies, Southwestern Bell Telephone Company and BellSouth, supported the Ameritech petition. Only MCI Telecommunications Corporation ("MCI") opposed the petition for rulemaking. As BellSouth will show later in this Reply, MCI's reasons for opposing the petition are invalid.

The parties supporting the petition for rulemaking made the following points:

1. The issue of the proper rate at which to capitalize

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AFUDC has not been addressed by the Commission since 1978.¹ At that time, the issue was addressed for AT&T in the factual context of the then consolidated Bell System.

2. The current ratemaking treatment of AFUDC denies telecommunications carriers the opportunity to earn the authorized rate of return on the investor supplied capital used to finance long term construction.

3. Currently, the Part 65 ratemaking rules and the Part 32 accounting rules are inconsistent. The Commission should eliminate this inconsistency so that the AFUDC allowed for ratemaking purposes is consistent with the amount reported in external financial statements.

4. The Commission should eliminate its current double counting of short term debt for ratemaking purposes. Under the current rate of return rules, short term debt is included in the capital structure which assumes it is used to finance the rate base. The rate base rules assume that the same short term debt is the sole source of funds used to finance long term construction. The same capital dollars cannot be attributed to both uses.

These reasons clearly support Ameritech's request for a rulemaking proceeding. In its opposition to such a

¹The Commission declined to address this issue on its merits in the post-divestiture rate base proceeding. See Amendment of Part 65 of the Commission's Rules to Prescribe Components of the Rate Base and Net Income, 3 FCC Rcd 269 (1987). The refusal of the Commission to address this issue in the rate base docket gave rise to the Ameritech Petition for Rulemaking.

proceeding, MCI does not address, much less refute, any of these sound reasons to institute a rulemaking. Instead, MCI misrepresents the Ameritech petition. For example, MCI asserts that Ameritech proposes "that AFUDC amounts be included in the current rate base as if such capitalized interest were part of [telephone plant in service]."² Ameritech proposes no such thing. Ameritech's petition addresses the rate at which AFUDC is capitalized, not the timing of the inclusion of such capitalized amounts in rate base.

Indeed, Ameritech's proposed revision to Section 65.820 of the Rules clearly states that what will be included in rate base is "the interstate portion of all assets summarized in Account 2001 (Telecommunications Plant in Service, including allowances for funds used during construction"³ Ameritech does not propose to change the point in time when capitalized AFUDC is included in Account 2001. Under the current rules, and under Ameritech's proposal, this would occur when amounts recorded in Account 2004, Telecommunications Plant Under Construction-Long term, are cleared to the rate base plant

²MCI Opposition at 2. See also MCI Opposition at 3: "Ameritech proposes that AFUDC, which is clearly a cost of future construction, be included in the current ratebase." This is also a total misrepresentation. AFUDC is capitalized only when current construction is underway, and investor supplied capital is provided to fund that current construction.

³Ameritech Petition at 6.

accounts. Under the Commission's Rules, this occurs when the construction is completed and the resulting plant is ready for service.⁴ Thus, the amount of AFUDC currently being capitalized will not be added to rate base until the plant with which such amounts are associated are fully constructed and ready for service. MCI's misrepresentation to the contrary notwithstanding, Ameritech proposes no change in the timing of the inclusion of AFUDC in rate base.⁵

Having created a strawman, MCI then proceeds to attack it as contrary to established Commission policy. Of course, what Ameritech requests in its petition is that the Commission revisit its current policy in light of the factors noted above. One logically would expect that when a petition is filed seeking a change in Commission policy, the result sought in that petition would be different than the current policy. The fact that a petition for rulemaking proposes a change in current Commission policy is no grounds for rejecting the petition.

MCI's attempts to justify the existing policy are equally misguided and confused. MCI asserts that the

⁴47 C.F.R. Sec. 32.2004(d).

⁵MCI may have been confused by Ameritech's alternate

Commission did not consider the actual sources of funding of long-term construction by AT&T when it adopted its present policy. It argues, therefore, that Ameritech's analysis of the actual source of funding is irrelevant.⁶ In the very next paragraph of its pleading, however, MCI asserts that Ameritech's proposal to capitalize AFUDC at the overall rate of return "would continue to compensate the LECs for a mix of capital that bears no relationship to the actual funding of long-term construction."⁷ MCI is either unaware of, or indifferent to, the patent inconsistency in its arguments.

As BellSouth points out in its comments in support of Ameritech's petition, the Commission has already fully accounted for any short-term debt that is available at the prime rate when it includes such capital in the capital structure used to calculate the overall rate of return. Because capital is fungible, once the overall rate of return is established giving full consideration to all sources and costs of capital, the Commission cannot logically assert that one particular source of capital is uniquely available to fund long-term construction. For there to be consistency between the rate base and rate of return rules utilized by the Commission, AFUDC must be capitalized at the overall

rate of return if Account 2004 is excluded from rate base.⁸

Finally, MCI asserts that:

When interest rates are low, including a higher return on long-term construction may actually discourage timely completion of projects by allowing uneconomic investment in PUC-LT as an alternative to TPIS to the detriment of the infrastructure.⁹

This assertion is utter nonsense. If, as Ameritech suggests, AFUDC is capitalized at the overall rate of return, a carrier will still have every incentive to bring construction projects on line as soon as possible. It is only when such projects are placed into service that they begin generating cash inflows. A carrier will have absolutely no incentive to delay the completion of construction, and thus the receipt of cash inflows from the newly constructed facilities, based on the fact that AFUDC is capitalized at the overall rate of return rather than the prime rate.

The parties supporting the institution of a rulemaking proceeding to correct the inequities in the present Commission policy and to achieve consistency between the Commission's Part 32 and Part 65 Rules have offered

⁸ If Account 2004 was included in rate base, a decision to capitalize AFUDC at the prime rate would affect the timing, but not the ultimate recovery, of an appropriate rate of return on prudently invested capital. For this reason, BellSouth suggested in its comments that this third alternative also be considered in the rulemaking proceeding requested by Ameritech.


⁹ MCI Opposition at 8.

compelling reasons for the Commission to act favorably on the Ameritech petition. As shown above, the only opponent of such a rulemaking, MCI, has offered no sound reasons for denying the Ameritech petition. The Commission should promptly institute a proceeding to consider the issues raised in the Ameritech petition and in the comments of the parties supporting a rulemaking on these issues.

Respectfully submitted,

BELLSOUTH CORPORATION,
SOUTH CENTRAL BELL
TELEPHONE COMPANY, and
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April 5, 1991

CERTIFICATE OF SERVICE

I hereby certify that I have this 5th day of April, 1991
serviced all parties to this action with a copy of the foregoing
REPLY COMMENTS by placing a true and correct copy of same in the
United States mail, postage prepaid, addressed to:

Ray Tidelibus
Ray Tidelibus